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Irrelevant? OPEC Is Sitting Pretty.

By JAD MOUAWAD

PARIS — The signs of OPEC's supposed decline into irrelevance are all around.

Its share of world oil output, once 50 percent, is down to about one-third. It was caught unprepared by a prodigious run-up in demand this year. Nearly all its members are ignoring their production quotas and pumping all the oil they can. It lags behind non-OPEC oil producers in exploration and oilfield development. And it has seemed helpless to rein in prices that soared to record highs over \$50 a barrel last week.

Never mind all that. OPEC still has the whip hand in the world energy market, and Ali al-Naimi, the oil minister of Saudi Arabia and the principal figure in the cartel, intends to keep it.

The key is oil reserves. In a nutshell, OPEC has plenty, while the rest of the world, including the United States, is quickly pumping itself dry.

Far from waning, then, OPEC's hold on the oil market, and thus on the world economy, looks set to grow sharply in the coming decades, with profound economic and geopolitical implications.

As alternative sources of oil dwindle, so, too, will the United States' room to maneuver in dealing with OPEC, and especially with the five states around the Persian Gulf that are richest in reserves: Saudi Arabia, Kuwait, the United Arab Emirates, Iraq and Iran.

The United States will find it steadily more difficult and complex to either engage or disengage in the Middle East, in pursuit of energy independence or political stability or the war on terrorism, because oil from the gulf will become steadily more indispensable to the American economy, barring a wholesale change in the way the nation uses energy.

Those five gulf countries possess 61 percent of the world's proven oil reserves, according to the latest statistics compiled by BP. Add the other six members of OPEC, and the cartel controls three-quarters of the world's 1.15 trillion barrels of reserves.

As the rest of the world has stepped up oil production to meet soaring demand this year, it has been exhausting reserves much faster than OPEC has. At present rates of production, the crude oil that has already been found outside OPEC will be consumed by about 2030 or so, when the five gulf countries will still have billions of barrels. Of course, production levels change, and some new oil is found each year to replace what is used - but lately, not very much.

Multinational oil companies are already worried. "As the absolute amount of energy provided by OPEC countries has grown, as well as OPEC's share of the total, voices of concern over security of supply have increased," said Lee R. Raymond, the chief executive of ExxonMobil, speaking at an industry conference in Vienna last month. "It will be difficult to calm these concerns."

The oil companies want desperately to regain access to the gulf's reserves, but they have been locked out for decades. Many OPEC countries have state oil monopolies, most notably Aramco in Saudi Arabia, which the country nationalized in 1980, and the five reserve-rich gulf nations all sharply restrict foreign investment and influence over their oil industries. (So do many other oil producers, like Mexico and Brazil.)

The Persian Gulf nations are under mounting pressure to let the Western oil giants back in; Mr. Naimi described it last week as an "onslaught" against Aramco and other states' monopolies. But his government has given no sign that it is contemplating any significant opening.

"Oil companies are in a very difficult position," said Ann-Louise Hittle, the head of macro oil research at Wood Mackenzie, an Edinburgh-based consultant. "The best they can do is to push into non-OPEC countries and be poised for when OPEC invites them in. It's apparent there's a logjam to access new reserves."

This explains Western companies' push to invest in Russia, despite President Vladimir Putin's moves to return control of the energy sector to the central government.

The rise in Russian oil production in the last decade has been stunning, and has helped moderate prices even as the world economy has been growing and demand has exploded in China, India and elsewhere. Russia's output of 8.8 million barrels a day, up by more than one-third from its post-Soviet low in the 1990's, now rivals Saudi Arabia as the world's top producer. Among the latest investment moves there, ConocoPhillips said last Wednesday that it would pay \$2 billion for a 7.59 percent stake in Lukoil, Russia's second-largest oil company.

But the respite offered by Russia - and by new oil fields in neighboring Kazakhstan, the only big finds anywhere in the world in recent years - may prove short-lived. PFC Energy, a consulting firm, estimates that production in the former Soviet Union will peak at 14 million barrels a day around 2012 and then decline.

So the oil industry must inevitably turn to OPEC, according to Robert Ebel, the head of the energy program at the Center for Strategic and International Studies.

"Access to reserves, that's the name of the game," Mr. Ebel said. "You want to go where the reserves are. So you go to Russia, for example, but you always come back to the Persian Gulf, because that's where the reserves are."

The Organization of Petroleum Exporting Countries has come a long way since its militant "oil weapon" days, when conflicts in the Middle East led to embargoes and energy crises in 1973 and 1979 that threw economies around the world into spirals of inflation and recession.

Today, OPEC is all about stability, and tries to keep prices within a target range: not so low that its members starve for income, nor so high that the world economy suffers or consumers turn to alternatives like coal. Over the last decade and a half, OPEC has largely succeeded, providing a solid base for global economic growth.

Now, though, the world is drinking oil like never before, and prices have risen far above its target range. Demand is forecast to increase by half over the next two decades, reaching some 115 million barrels a day by 2025, and many analysts say that OPEC has been slow to invest in new production to meet the demand. According to PFC Energy estimates, OPEC now pumps 8 billion

more barrels of oil each year than it finds and develops.

That means that prices are likely to stay fairly high for a long time, according to Kevin Norrish, an analyst at Barclays Capital. Futures contracts for oil to be delivered in 2010 are trading now at \$34.30 a barrel, or one-third more than when they began trading in March; that fact "is telling oil companies and OPEC that large amounts of investments are required," Mr. Norrish said. "It's a signal of underinvestment over the past decade. It's not a short-term issue."

Certainly, not all OPEC members keep out foreign investors; some, like Nigeria and Algeria, actively seek them. Iran allows some limited partnerships with foreign oil companies, but American companies cannot do business there because of sanctions imposed by the United States. Sanctions against Libya were lifted recently and the country is now negotiating the return of American companies.

Even Saudi Arabia has tentatively opened one door, granting Royal Dutch/Shell and the French company Total permission to prospect for natural gas. But so far, Saudi oil is still out of bounds, and the energy giants say there aren't many other good places left to look.

"The time for large and easy discoveries is clearly behind us," said Thierry Desmarest, the chairman and chief executive of Total, at the Vienna conference. "By far the largest share of undeveloped reserves remain under state control, and in large part open only to national oil companies. The opening of these reserves is urgent."

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